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TS #102206

Copy No. 1

12 July 1955

MEMORANDUM FOR THE DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT: Burden of Military Expenditures on the Soviet Economy

1. In NIE 11-3-55: "Soviet Capabilities and Probable Soviet Courses of Action through 1960" (17 May 1955) it was estimated that Soviet military programs would require an increase in military expenditures of about 3 percent annually. Total military expenditures in 1960 would thus be about 15 percent greater in 1960 than in 1955. This was believed to constitute no particular hardship on the Soviet economy, which would continue to maintain a rate of growth almost twice as great as the economies of the West.

2. In NIE 11-5-55: "Soviet Capabilities in Air Defense," approved today, a much more detailed estimate was made of probable Soviet air defense programs and of their cost. The air defense program here appears more extensive than estimated in NIE 11-3-55, and the cost correspondingly greater. If the estimated air defense program is in fact carried out, Soviet military expenditures might be as much as 40 percent greater in 1960 than in 1955, rather than 15 percent greater as estimated in NIE 11-3-55. This would begin to be a real burden, and would appreciably cut down the rate of Soviet economic growth.

DOCUMENT NO. 11
NO CHANGE IN CLASS. 17
☒ DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE:
AUTH: HR 70-2
DATE 1-5-80 REVIEWER: 372044


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3. The uncertainties of estimating are too great to say flatly that NIE 11-5-55 is wholly right and NIE 11-3-55 wholly wrong. However, the more recent NIE strongly indicates that the burdens of defense on the Soviet economy are greater than previously estimated.

4. Several of the IAC members, in commenting on your 1 July memorandum to the NSC concerning Soviet policy at the Summit conference, referred to NIE 11-3-55 as showing that Soviet military expenditures would not significantly burden the Soviet economy. They were of course right, but I think you should bear in mind the implications of NIE 11-5-55 as described in paragraph 2 and 3 above, when you next speak to the NSC on the matter.

FOR THE BOARD OF NATIONAL ESTIMATES 25X1A9a



SHERMAN KENT
Assistant Director
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